

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 NEA-11 ISO-00 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-10 NSAE-00 ICA-11
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-07 CEA-01 L-03 JUSE-00 PA-01
H-01 /119 W

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R 060406Z JUN 78
FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 7662
INFO AMEMBASSY BONN
AMCONSUL HONG KONG
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
USLO PEKING

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E.O. 11652: N/A
TAGS: EFIN, TW
SUBJECT: ROC BANK ISSUES FLOATING RATE NOTES

1. THE INTERNATIONAL COMMERCIAL BANK OF CHINA (ICBC) HAS ISSUED US DOLLARS 20 MILLION OF FLOATING RATE NOTES ON THE LONDON STOCK EXCHANGE. THE OFFERING WAS ARRANGED BY THE DILLON, REED OVERSEAS CORPORATION. IN ADDITION TO DILLON, REED, MANAGING UNDERWRITERS WERE AMEX BANCOM LIMITED, (AMERICAN EXPRESS COMPANY), CHASE MANHATTAN ASIA LIMITED, MORRAN GUALANMZ ARE PARTNERS LIMITED, BA ASIUWWIMITED (BANK OF AMERICA IN GUTICORP INTERNATIONAL GROUP-ASIA, AND RIYAD BANK LIMITED SAUDI ARABIA). A CITIBANK OFFIRIAL IN TAIPEI TOLD EMBOFF THAT THE TRIDENT BANK (A DIVISION OF BARCLAY'S BANK), THE BANC NATIONAL DE PARIS, AND THE
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WESTLAND BANK (WEST GERMANY) WERE NONMANAGING UNDERWRITERS. EMBASSY HAS OBTAINED THE PLACING MEMORANDUM FOR THE NOTES, AND IS POUCHING A COPY TO EA/ROC.

2. THE NOTES, WHICH ARE IN BEARER FORM AND IN DENOMINATIONS OF US DOLLARS 10,000, CARRY AN INTEREST RATE OF ONE-HALF PER CENT OVER LABOR, WITH GUARANTEED MINIMUM INTEREST

OF 7 AND ONE-FOURTH PER CENT. THE ICBC AGREED TO PAY THE MANAGERS A SELLING CONCESSION AND A MANAGEMENT FEE OF 1 PER CENT (I.E., US DOLLARS 200,000) AND ONE-HALF PER CENT, RESPECTIVELY. THE NOTES WILL MATURE IN FIVE YEARS. PROCEEDS WILL BE USED "TO MAKE US DOLLAR LOANS TO OTHER FINANCIAL INSTITUTIONS AND TO DOMESTIC CLIENTS FOR THE IMPORTATION OF CAPITAL EQUIPMENT," ACCORDING TO THE PLACING MEMORANDUM. EMBASSY SOURCES INDICATE THE FORMOSA PLASTICS COMPANY WILL RECEIVE A LARGE SHARE. THE FISCAL AGENT FOR THE NOTES IS THE BANKERS TRUST COMPANY. CITIBANK OFFICIAL TOLD EMBASSY THAT THE NOTES WERE PRICED ON MAY 22 AT 8 AND 15/16 PER CENT INTEREST AND WERE 90-95 PER CENT SUBSCRIBED BY MAY 31. HE DESCRIBED THE ISSUE AS "RELATIVELY SUCCESSFUL, BUT NOT WILDLY OVER-SUBSCRIBED."

3. THIS IS THE FIRST TIME THAT A FINANCIAL INSTITUTION IN THE ROC (TAIWAN) HAS UTILIZED THE EUROPEAN CAPITAL MARKET FOR PURPOSES OTHER THAN EURO DOLLAR BANK LOANS. ACCORDING TO AN ICBC OFFICIAL, THE PURPOSE IS TO OPEN UP A NEW CHANNEL TO FACILITATE THE INFLOW OF FOREIGN CAPITAL. AMERICAN BANKERS HERE GENERALLY APPROVE OF THE NEW CHANNEL, SINCE (1) US BANKS WOULD PROBABLY PARTICIPATE THROUGH APPROPRIATE SUBSIDIARIES IN FUTURE FLOATING RATE OR BOND ISSUES AND (2) USE OF THE NEW CHANNEL WOULD ALLOW ROC STATE ENTERPRISES TO ACQUIRE FUNDS WITHOUT THE LIMITED OFFICIAL USE

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CONSTRAINTS OF THE US COMPTROLLER OF THE CURRENCY'S 10 PER CENT RULE.

4. THE CIRCUMSTANCES SURROUNDING THE ISSUANCE OF THE NOTES (ALSO CALLED "EUROBONDS" OR "FLOATING RATE EURO-BONDS" BY SOME BANKERS) ILLUSTRATE THE DIFFICULTIES THE LACK OF DIPLOMATIC RELATIONS CAN CAUSE THE ROC. ACCORDING TO LOCAL CITIBANK OFFICIAL, ICBC INITIALLY WANTED TO PLACE ITS NOTES ON THE LUXEMBOURG STOCK EXCHANGE, BUT THE EXCHANGE REFUSED TO ACCEPT THE NAME "REPUBLIC OF CHINA" ON THE NOTES AND ACCOMPANYING DOCUMENTS. ICBC THEN APPLIED TO THE LONDON EXCHANGE AND, OVER SOME DISSENT, WAS ADMITTED. WHEN THE PLACING MEMORANDUM AND OTHER DOCUMENTS WERE DRAWN UP, THE ATTORNEYS IN CHARGE PLANNED TO FRAME THE DOCUMENTS IN TERMS OF ENGLISH LAW. US ATTORNEYS IN TAIPEI, HOWEVER, ADVISED THAT BECAUSE OF LACK OF RELATIONS BETWEEN THE UK AND THE ROC, A JUDGMENT IN A UK COURT MIGHT NOT BE ENFORCEABLE IN THE ROC. RESULT: THE NOTES ARE TO BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

5. SEVERAL LOCAL AMERICAN BANKERS WERE PUZZLED BY THE

LACK OF PUBLICITY GIVEN THE ISSUANCE OF THE NOTES.
ALTHOUGH NEWS STORIES APPEARED IN TAIPEI ENGLISH AND
CHINESE LANGUAGE PAPERS, THERE WAS NO PAID "TOMBSTONE"
ANNOUNCEMENT IN A PAPER SUCH AS THE WALL STREET JOURNAL.
DEPUTY GOVERNOR LIANG OF THE CENTRAL BANK OF CHINA (WHICH
WAS REQUIRED TO AND DID APPROVE THE ISSUANCE OF THE ICBC
NOTES) TOLD EMBASSY ON CONFIDENTIAL BASIS THAT IT NOW
APPEARED THAT THE ICBC DID NOT HAVE LEGAL AUTHORITY TO
ISSUE FLOATING NOTES, AND WAS THEREFORE NOT ANXIOUS TO
PUBLICIZE ITS FAIT ACCOMPLI. LIANG SPECULATED THAT THE
ICBC MIGHT MAKE A STATEMENT INDICATING ANOTHER BANK (E.G.

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THE BANK OF COMMUNICATIONS) HAD DELEGATED ITS AUTHORITY.

6. GROC AND PRIVATE BANKING OFFICIALS ALIKE VIEW THE
ICBC NOTES AS A TRIAL BALLOON, WHICH, IF SUCCESSFUL, WILL
LEAD TO FURTHER VENTURES BY ROC INSTITUTIONS INTO FLOATING
RATE NOTE AND BOND MARKETS. THE TAIWAN POWER COMPANY HAS
ALREADY ANNOUNCED THAT IT WOULD LIKE TO ISSUE US DOLLARS
100 MILLION IN BONDS IN THE UNITED STATES IN FY 1979.
HOWEVER, A TAIPOWER OFFICIAL TOLD EMBOFF THAT, IN FACT,
MANY PROBLEMS REMAINED TO BE SOLVED, AND THAT IT WAS NOT

LIKELY THAT THE BONDS WOULD BE ISSUED BEFORE 1980, IN AN AMOUNT NOT YET DETERMINED.

7. ALTHOUGH THE ICBC IS A PRIVATE BANK IN FORM, ITS OFFICIALS ACKNOWLEDGE THAT THE BANK "HAS THE FULL SUPPORT LIMITED OFFICIAL USE

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OF THE GOVERNMENT," AND THAT THE UNDERWRITERS FOR THE FLOATING RATE NOTES WERE AWARE OF THE GOVERNMENT CONNECTION. FUTURE OFFERINGS OF A SIMILAR NATURE IN EUROPE OR ELSEWHERE WILL ALSO PROBABLY BE MADE BY ROC STATE ENTERPRISES, OR BY INSTITUTIONS KNOWN TO BE SUPPORTED BY THE GROC. THE GROC WOULD BE VERY RELUCTANT TO ALLOW TAIWAN'S CREDIT RATING TO BE JEOPARDIZED BY A NONGOVERNMENT-SUPPORTED OFFERING; ALSO, PRIVATE COMPANIES HERE WOULD PROBABLY FIND THE CAPITAL MARKET MUCH LESS RECEPTIVE THAN WOULD GOVERNMENT-BACKED ENTITIES. FUTURE OFFERINGS WOULD PROBABLY BE FOR LONGER TIME PERIODS (10-15 YEARS). THE BOND MARKET WOULD ALLOW THE GROC TO OBTAIN FINANCING AT MORE FAVORABLE RATES THAN WOULD EURO-DOLLAR LOANS, AND WOULD SERVE TO GIVE A LARGER AND MORE DIVERSE GROUP OF INVESTORS A STAKE IN THE ECONOMY OF TAIWAN. UNGER

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